

CITY OF NEOLA

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

**FOR THE PERIOD
JULY 1, 2014 THROUGH JUNE 30, 2015**

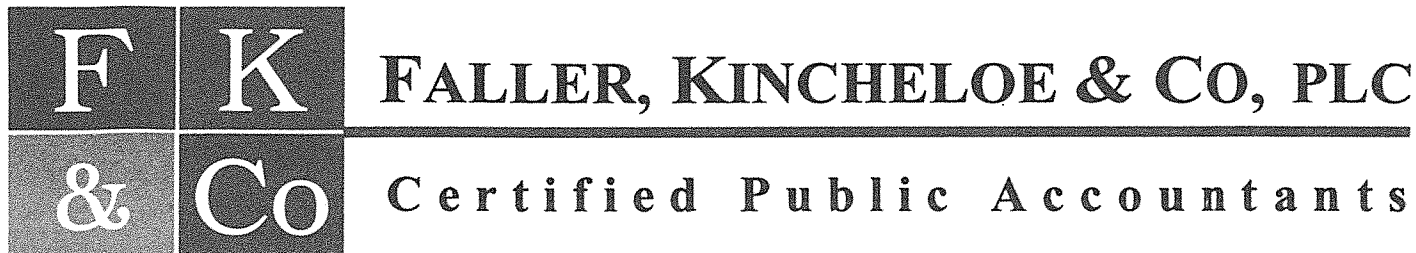
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City of Neola

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Scott Brooks	Mayor	Jan 2016
Joe Munch	Council Member	Jan 2016
Pete Sorensen	Council Member	Jan 2016
Ethan Matthews	Council Member	Jan 2018
Aric Thomsen	Council Member	Jan 2018
Herb Brich	Council Member	Resigned
Karla Pogge	Council Member	Jan 2016
Leslie Parker	City Clerk	Resigned
Amber Sandoval	City Clerk	Indefinite



Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which are established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Neola for the period July 1, 2014 through June 30, 2015. The City of Neola's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed transfers between funds for propriety, proper authorization, and accurate accounting.
15. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
16. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of the financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Neola, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Neola and other parties to whom the City of Neola may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Neola during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Faller, Kincheloe & Co, PLC

May 13, 2016
Des Moines, Iowa

Detailed Recommendations

CITY OF NEOLA
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one or two individuals have control over each of the following areas for the City of Neola (City):

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody of investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Payroll – recordkeeping, preparation and distribution.
6. Debt – recordkeeping, compliance and debt payment processing.
7. Utilities – billing, collecting, depositing and posting.
8. Financial reporting – preparing and reconciling.
9. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The cash and investment balances in the City’s general ledger were not reconciled to bank and investment account balances throughout the year. For one of the two months reviewed, the bank and book balances did not properly reconcile.

Recommendation – The City should establish procedures to ensure bank and investment balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

CITY OF NEOLA
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

- (D) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported beginning and ending balances do not agree with the City’s records. In addition, the City did not report the correct budget amounts on the City’s Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records. In addition, the City should ensure that the correct budget of the City is included on future Annual Financial Reports.

- (E) Transfers – Supporting documentation was not maintained for all transfers. Additionally, all transfers were not approved by the City Council.

Recommendation – Supporting documentation should be maintained which substantiates all interfund transfers. Additionally, all interfund transfers should be evidenced by approval in the minutes or budget, as applicable.

- (F) Financial Condition – At June 30, 2015, the City had deficit balances of \$5,570, \$118,459, \$211,555 and \$145,557 in the Employee Benefits Fund, Debt Service Fund, Sewer Fund and Electric Fund, respectfully.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (G) Payroll – Annual salary increases for some City employees were approved based upon a percentage and the actual approved wages were not documented in the City Council minutes. Also the hourly rate for the current city clerk was not approved in the City Council Minutes.

Recommendation – Salaries of employees should be adequately documented in the City Council minutes.

CITY OF NEOLA
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

- (H) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the public safety, community and economic development and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” The original budget was not passed by resolution as required by Chapter 384.16 of the Code of Iowa. Also the budget amendment was not passed by resolution, was not amended by May 31, 2015 and there was no indication a public hearing was held as required by Chapter 384.16 of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also the City should comply with Chapter 384.16 of the Code of Iowa for all future budget and budget amendments.

- (I) Disbursements – Four disbursements tested were not supported by invoices. Two credit card transactions tested were not supported by original receipts.

Recommendation – The City should retain original invoices for all disbursements. Purchases made with credit cards should be supported by original receipts and the original receipts should be reconciled to the statement monthly.

- (J) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- The City Council went into a closed session on October 24, 2014. The specific exemption under Chapter 21.5 of the Code of Iowa was not identified or documented as required. Also the session was not entered by an affirmative public vote.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund and a summary of all receipts. We noted that these requirements were not met by the City for some meetings tested.
- The City Council minutes did not document sufficiently how each member voted as required by Chapter 21.3 of the Code of Iowa.

Recommendation – The City should comply with Chapters 21.3, 21.5, 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure the minutes, total disbursements from each fund, summary of all receipts and ordinances are published as required.

CITY OF NEOLA
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

- (K) Annual Urban Renewal Report (AURR) – As of June 30, 2014, the City overstated the amount reported as TIF debt outstanding on the AURR Levy Authority Summary by \$35,338. Also due to the lack of documentation we were unable to determine the accuracy of the Low to Moderate Income balances.

Recommendation – The City should ensure the balances reported on the AURR Levy Authority Summary agree with the City's records.

- (L) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness. Chapter 403.19 of the Code of Iowa does not allow a municipality to set aside property tax divided for tax increment purposes for current or future urban renewal projects. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. In addition, Chapter 403.19(6)(b) of the Code of Iowa requires the City to certify the amount of reductions resulting from the reduction of debt or any other reason to the County Auditor.

Based on a review of the City's records, and based on the review of the County Auditor's "Urban Renewal Area, TIF Indebtedness/Increment Tax Revenue Reconciliation" prepared in December 2014, it appears the City did not certify approximately \$95,000 of debt.

Recommendation – The City should certify the debt and interest expected to be repaid, including past principal and interest amounts paid, with TIF collections to the County Auditor as a TIF obligation.

- (M) Revenue Notes – The City was only able to provide limited documentation regarding the requirements of the Sewer and Water Revenue Notes with the IFA. As a result, the City was unable to provide us complete documentation in relation to the continuing compliance provisions regarding these revenue notes.

Recommendation – The City should retain documentation relating to any bonds or notes on all future debt issuances.

- (N) Debt Service – For the year ended June 30, 2015, the City paid a loan payment on a fire truck from the Debt Service Fund. However, based on the Code of Iowa requirements, it is unclear if this loan could have been paid from the Debt Service Fund.

Recommendation – The City should consult bond legal counsel regarding this matter.

CITY OF NEOLA
DETAILED RECOMMENDATIONS
For the period July 1, 2014 through June 30, 2015

- (O) Sewer Revenue Notes – The provisions of the sewer revenue note require the City to produce net operating receipts equal to at least 100% of the principal and interest on notes falling due in the same year. Since the City's Enterprise, Sewer Fund is in a deficit position the City has not maintained sufficient user rates.

Recommendation – The City should review its sewer rate structure and expenses and adjust to ensure collection of net receipts of at least 100% of the principal and interest payments falling due in the same year.

- (P) Disbursement Approval – Two invoices tested were not documented as approved by the City Council.

Recommendation – All invoices should be approved by the City Council.